

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

April 17, 2001

The Capital Projects and Bond Oversight Committee met on Tuesday, April 17, 2001, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Bob Leeper, Vice Chairman; Senators Tom Buford, and Bob Jackson; Representatives Robert Damron, and Jim Wayne.

Guests testifying before the Committee: Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management, Finance and Administration Cabinet; Ken Clevidence, University of Kentucky; Larry Owsley, University of Louisville; Porter Dailey, Morehead State University; Ken Dressman and Bill Whitney, Department of Corrections; Jerri Ivers and Randell Hancock, Cabinet for Families and Children; Warren Nash, Cabinet for Economic Development; Debby Milton, Kentucky Infrastructure Authority; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Nancy Osborne, and Shawn Bowen.

Senator Jackson made a motion to approve the minutes of the March 22, 2001 meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon welcomed Ms. Nancy Osborne, a new staff member and called on Ms. Mary Lynn Collins, Capital Projects and Bond Oversight Committee Staff Administrator, to review various correspondence and information items included in members' folders.

Chairman Haydon then introduced Mr. Bill Hintze, Governor's Office for Policy and Management, to discuss a cost overrun for the Eastern Kentucky Veterans Center project. This project was reviewed by the Committee at its March 22 meeting. At that meeting, the Committee approved the \$900,000 cost overrun but made a change in the proposed funding source. The Committee voted that the increase should be paid from two sources: \$350,000 should come from operating money appropriated from the General Fund that the Department of Veterans' Affairs indicated would not be needed due to the

delay in the openings of the Eastern and Western Kentucky Veterans' Centers; and the remaining amount, \$550,000, should come from the Capital Construction and Equipment Purchase Contingency Account.

Mr. Hintze said Finance and Administration Cabinet Secretary Flanery, after reviewing the Committee's action, decided to fund the project cost overrun as initially proposed - using \$900,000 from the Department of Veterans' Affairs restricted funds that were generated at the Thomson-Hood Veterans Center. (Up to 65% of that amount will be eligible for reimbursement by the U. S. Department of Veterans' Affairs.) Mr. Hintze said Secretary Flanery's decision was based upon information presented to him and to the Committee by General Leslie Beavers, the Commissioner of the Department of Veterans' Affairs.

Chairman Haydon then introduced Mr. Ken Clevidence, Associate Vice President for Fiscal Affairs, University of Kentucky (UK), to discuss an unbudgeted privately funded project for the University.

Mr. Clevidence said the University is requesting approval for an unbudgeted project to build the first phase of the Arboretum Visitor Education Center. The arboretum was created in 1991 as a joint project between the University and the Lexington-Fayette Urban County Government (LFUCG). He said approval of the project will be contingent upon approval by the Council on Postsecondary Education at its May 20 meeting. The project scope is \$563,385 (private funds), and of that amount, the University has \$431,385 in hand.

In response to a question from Representative Wayne, Mr. Clevidence said the private funds have been certified and the balance of the funds (\$132,000) should be in hand by June 30, 2001.

Representative Wayne asked what role the LFUCG plays in the operation of the arboretum. Mr. Clevidence said in 1982 the University and the LFUCG worked out an agreement to set aside 100 acres for an arboretum. He said administration responsibilities of the arboretum are shared between the LFUCG and the University.

Representative Wayne made a motion to approve the unbudgeted project for UK. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon introduced Mr. Larry Owsley, Vice President for Finance and Administration, University of Louisville (U of L). Mr. Owsley said U of L is looking forward to the Committee's visit next month. He then indicated U of L is requesting this month approval for a new lease for the Kentucky Autism Training Center. Mr. Owsley said the U of L School of Medicine operates the Kentucky Autism Training Center, and it is the lead agency in the state on autism. He said this is a very promising program for the

University, and the lease will provide the additional space needed to house the program. The annual cost of the lease is \$148,122.

In response to questions from Representative Wayne, Mr. Owsley said the lease will be in the Old Male High School, which has been converted to office space, and the funding source is operating funds from the U of L School of Medicine.

Senator Buford made a motion to approve the new lease for U of L. The motion was seconded by Representative Damron and passed by voice vote.

Next, Commissioner Armond Russ, Department for Facilities Management, invited Committee members to attend the National Association of State Facilities Administrators Annual Conference. The conference will be held June 9-13 in Lexington, Kentucky. Commissioner Russ said the conference will address four major issues dealing with facilities: capital construction, building operations, transportation, and real property management.

Chairman Haydon then asked Mr. Hintze and Commissioner Russ to discuss a project report submitted by the Finance and Administration Cabinet.

Mr. Hintze first reported a \$1,100,000 scope increase for the Kentucky Community and Technical College System (KCTCS) Maysville Community College Technical Building project. This project was authorized by the 1998 General Assembly at a scope of \$7,500,000. Mr. Hintze said the project has been bid twice, and both bids exceeded the project budget. He said the project will be bid again. The scope increase will be covered with \$500,000 from the City of Maysville and the Mason County Fiscal Court, and \$600,000 in private funds raised by the community. Mr. Hintze said the private funds have been certified in writing.

Representative Wayne made a motion to approve the scope increase for the Maysville Community College project. The motion was seconded by Senator Jackson and passed by voice vote. The revised project scope is \$8,600,000.

Mr. Hintze then reported a \$4,200,000 unbudgeted project for Morehead State University (MoSU). He said a satellite tracking system, located on Wallops Island, Virginia, and formerly used by NASA, is available to the University. The satellite will be used for NASA missions and will provide a replacement antenna for the MoSU radio telescope. As part of the project, MoSU will construct a 1,600 SF facility adjacent to the satellite to house the special equipment that supports its operation and will purchase weather forecasting equipment and GPS/GIS systems.

Mr. Hintze said the project scope is \$4,200,000; \$2,000,000 in federal funds already received; \$50,000 in restricted agency funds; \$270,000 in road funds from the

Transportation Cabinet; and an additional \$1.88 million in federal funds from the Small Business Administration which the University has requested.

Representative Wayne asked how the tracking system will be moved from Virginia. Mr. Porter Dailey, Vice President for Administration, MoSU, said the tracking system will be transported by semi-trailer. He said it will take approximately 22 semi-trailer loads to transport the equipment.

Representative Wayne asked if the funds available will be sufficient to make the satellite system operational if the University does not receive the \$1.88 million requested from the Small Business Administration. Mr. Dailey said the University feels reasonably comfortable that it will receive the additional federal funds. He said the University does not plan to add money to the project, and there is enough money from the \$2 million in federal funds already received and earmarked to dismantle and transport the tracking system.

Senator Jackson asked Mr. Dailey how often NASA will use the satellite tracking system. Mr. Dailey said, as part of the contracted arrangement with the University, NASA can use the satellite tracking system, which operates 24 hours a day, up to 50% of the time. Mr. Dailey said he did not know how long the contract will remain in effect.

Senator Jackson asked why NASA is not paying to move the equipment. Mr. Dailey said NASA is decommissioning the antenna, and the University saw it as an opportunity to secure the satellite. Mr. Dailey said NASA will pay a usage fee each time the equipment is used. Senator Jackson suggested MoSU ask NASA to help cover the cost of moving the satellite tracking system.

In response to questions from Senator Jackson, Mr. Dailey said MoSU's Six-Year Capital Plan includes a new classroom building for the astrophysics program, and the University plans to seek funding in the 2002 session for this building. Mr. Dailey said MoSU's center of excellence, under higher education reform, is the Institute for Regional Policy and Public Analysis. Mr. Dailey said the economic development and the research component of the use of this antenna will tie in directly to this program of distinction.

In response to a question from Senator Buford, Mr. Dailey said the equipment is expected to earn approximately \$250,000 a year from NASA user fees, which will be more than sufficient to cover the system's operating costs.

Senator Leeper asked if the new classroom building will be required in order for the University to utilize the satellite system. Mr. Dailey said the University can operate the antenna with the current facilities on campus. However, he said the University would like to further develop its astrophysics program and other programs may evolve from the use of the antenna that would require a state-of-the-art classroom and research space.

Representative Damron made a motion to approve the unbudgeted project for MoSU. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Hintze then reported plans by the Cabinet for Families and Children (CFC) to increase the scope of the HVAC and Interior Renovation project in the Owensboro State Office Building by \$100,000 in order to replace a boiler in the facility. The HVAC and Interior Renovation project was authorized by the 2000 General Assembly for \$1,500,000. The \$100,000 needed for the boiler replacement will come from the Cabinet's Miscellaneous Project Pool.

Senator Leeper made a motion to increase the scope of the CFC project. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$1,600,000.

Lastly, Mr. Hintze discussed a modification of an authorized project for the Department of Corrections. He said the 2000 General Assembly approved \$1,096,000 in restricted funds for an Optical Imaging System. Mr. Hintze said Corrections has concluded that the acquisition of an optical imaging system is premature, and the Department plans to use the money allocated to program a new offender management system compatible with, but not identical to the optical imaging system previously authorized. He said this is a viable first step that will be a "stand alone" improvement to the existing offender management system. (The funds, originally allocated for the Optical Imaging System, will be used to help fund a comprehensive review of key business processes within the Department, a first step to developing a new offender management system.)

Representative Damron said an interstate compact relating to tracking sex offenders as they move from state to state will probably be ratified this fall. That compact will involve at least 35 states. He said Kentucky should be coordinating with other states to ensure that it does not develop a system that is not compatible with other states.

Mr. Ken Dressman, Principal Assistant to the Commissioner of the Department of Corrections, said the business improvement study will take into account every facet of information within the Department of Corrections, including the interstate compact. Once the Offender Management System is implemented, it will be able to track sex offenders. Mr. Hintze added that through the primary vendor and consultant being used, Kentucky is also drawing from other states' experiences.

In response to a question from Representative Damron concerning funding for the Offender Management System, Mr. Dressman said they hope federal funds will be available to defray part of the system's cost.

Chairman Haydon said this item did not require Committee action.

Chairman Haydon introduced Mr. Jim Abbott, Director, Division of Real Properties, to discuss three new lease contracts and a state agency lease modification report for the Finance and Administration Cabinet.

Mr. Abbott first reported lease PR-4432, Cabinet for Families and Children (CFC), with an annual cost of \$215,984. He said this new lease will consolidate staff from CFC in Shelby County. The offices to be consolidated include the Office of Protection & Permanency, Family Support Offices, Child Support Enforcement, the Service Region Administrator, and a limited number of Workforce Development Cabinet Employment Services staff. Mr. Abbott said the lease will be for 18,074 SF and will house approximately 70 staff. The lease is being consolidated as part of CFC's effort to improve its workplaces, assure greater client privacy, and achieve accreditation from the Council on Accreditation of Services for Families and Children, Inc.

Mr. Abbott said this lease was advertised on two occasions. Four properties were offered for consideration, and two best and final proposals were received.

Representative Wayne asked what CFC's funding source is for the additional costs related to the workplace improvement effort. Mr. Abbott said the action they are taking is a consolidation of existing leased offices in Shelbyville.

Representative Wayne said it would be helpful if the Division of Real Properties would provide a comprehensive report on the Cabinet's Workplace Improvement Initiative at the Committee's next meeting. Mr. Abbott said he would be happy to provide this information to the Committee at its May meeting.

Representative Damron said he did not feel the question relating to CFC's funding source for the additional lease costs had been answered. He also said he wanted to know what services to clients will be cut in order to pay for the increased leasing costs. Ms. Jerri Ivers, CFC Budget Office, said approximately 60% of the leasing costs will be federally funded. She also said the Workplace Improvement Initiative was listed three times in the 2000-2002 budget memorandum.

Mr. Abbott said the new lease complies with the Division of Real Properties' current space standards.

In response to a question from Representative Damron, Mr. Randell Hancock, Leasing Liaison, CFC, said a number of changes have occurred within the Shelby County office including a new child support unit. Mr. Hancock said even though the existing space is provided under two leases in the Shelby County Plaza, staff is actually located in four different locations at the Plaza which is confusing for clients.

Representative Damron questioned why a priority is being placed on lease expansion when we have budget problems. He said he was having a hard time understanding why when we are considering making cuts that will reduce services to people, we are increasing payments to landlords.

Representative Wayne made a motion to table this lease (PR-4432) until the Committee's May meeting. The motion was seconded and passed by voice vote.

Mr. Abbott next discussed PR-4487, CFC, with an annual cost of \$187,775. He said this new lease will consolidate staff from CFC in Letcher County. The offices to be consolidated include the Office of Protection & Permanency, Family Support Offices, and the Kentucky River Service Region Administrative Office. Mr. Abbott said the lease is new construction, and the building contains 19,259 sq. ft.

Representative Wayne made a motion to table this lease until the Committee's May meeting also. The motion was seconded and passed by voice vote.

Mr. Abbott then discussed PR-4568, a new lease in Oldham County for the Department of Corrections/Division of Adult Institutions. He said the proposed lessor is Days Inn and the purpose of the lease is to accommodate the need by the Department to house correctional officers traveling from other areas of the state to work at the Kentucky State Reformatory, Luther Luckett Correctional Complex, Roederer Correctional Complex, and the Kentucky Correctional Institution for Women. He said the need for this housing is due to the inability to hire the needed correctional officers locally. (The Department has successfully recruited personnel from the eastern part of the state to work in three day-12 hour shifts.) Mr. Abbott said the Days Inn lease will provide immediate housing for 38 officers that need rooms. In addition, the Department is executing two one-room leases with the other two motels that responded to the advertisement for PR-4568 to allow flexibility in the future should the Department need to provide additional rooms for staff.

In response to a question from Representative Wayne, Mr. Bill Whitney, Deputy Commissioner of Adult Institutions, Department of Corrections, said the Department sees this effort as a long-term solution to the Department's staffing problems.

Representative Wayne asked if the Department had considered building some type of affordable housing in the area. He suggested the Department talk with the Kentucky Housing Corporation and staff from the Affordable Housing Trust Fund. Mr. Whitney said the Department had planned to construct staff housing this spring at the Kentucky State Reformatory, but due to the budget reductions, they do not have the funding for this.

Representative Wayne said the annual leasing costs being reported is almost \$173,000. He said at that rate, over time, a lot of permanent housing could be constructed. He suggested they consider this lease as a short-term solution and present a plan to the 2002 General Assembly for permanent housing. He said he understood the Department had a serious problem trying to staff the prisons, but this problem should be looked at over the long-term, and some type of affordable housing should be built in the area. Mr. Whitney said he agreed and said the Department will make a proposal to the 2002 General Assembly for staff housing.

Mr. Abbott said there are certain amenities being provided in addition to the housing that are part of the Days Inn lease including linen services and a continental breakfast. Mr. Abbott said he understood the Committee's concerns, and he assured members that the contracts for the three leases have cancellation provisions. He assured the Committee that if the Department can find a better way to solve this problem, they will.

In response to a question by Senator Jackson, Mr. Whitney noted that once the Elliott County prison is built (several years from now) staff from Eastern Kentucky, now working at the Oldham County facilities will probably transfer to the Elliott County prison. At that point, the Department will have to recruit in other parts of the state.

Senator Jackson said he thought the long-term solution to this whole problem had to do with pay and being competitive in the marketplace. He said the Department should examine this more closely before entering into long-term leases or building new facilities for housing. Mr. Whitney said the Department has approximately 1,500-2,000 staff members among those three or four institutions. He said he did not know how they could increase the pay of staff coming from Eastern Kentucky and ignore the other employees at the institutions. Senator Jackson said he understood, but the Department is already treating these people differently by providing them free housing, and in some cases, free breakfasts, at a wage similar to that of the other employees. Mr. Whitney said the other employees that work security had the same offer of 13 hr. shifts for three days.

Senator Buford made a motion to approve PR-4568. The motion was seconded by Representative Damron and passed by voice vote.

Chairman Haydon said the Division of Real Properties also submitted a report of six state agency leases with space modifications. He said no further action was required for this item.

Chairman Haydon then introduced Ms. Debby Milton, Secretary to the Kentucky Infrastructure Authority (KIA), to present two new projects proposed for KIA assistance. She first discussed a proposed \$4,000,000 Fund F (Federally Assisted Drinking Water Revolving Loan Fund) loan for the Grayson County Water District. The Fund F loan will

be used to construct a new water treatment plant and associated treated water supply lines.

Senator Jackson made a motion to approve the Fund F loan. The motion was seconded by Representative Wayne and passed by voice vote.

Ms. Milton then discussed a Fund E (Solid Waste Revolving Loan) loan in the amount of \$40,000 for the Bell County Garbage and Refuse Disposal District. The Fund E loan will be used to repair fire damage at the Bell County transfer station.

Representative Damron made a motion to approve the Fund E loan. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon introduced Mr. Warren Nash, Director of the Grant Programs in the Economic Development Cabinet's Department of Financial Incentives, to discuss a project funded under the Economic Development Bond (EDB) program. Mr. Nash presented an EDB project to benefit VMV Enterprises, Inc. The Cabinet is proposing to make a grant of \$250,000 to the company, through the City of Paducah. Proceeds will be used to assist in the start-up cost for a locomotive refurbishment project for the Paducah and Louisville Railroad. The company is being required to maintain 314 jobs for three years.

Senator Leeper made a motion to approve the EDB grant. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon then called on Mr. Tom Howard, Deputy Director of the Office of Financial Management, to present the agency's bond activity report. Mr. Howard first reported a new bond issue: Kentucky Housing Corporation Housing Revenue Bonds, 2001 Series A, B, C, D, E, & F (\$139,135,000). Proceeds will be used to raise funds for the purchase of mortgages and to gain savings from the refunding of existing securities.

Representative Wayne made a motion to approve the new bond issue. The motion was seconded by Representative Damron and passed by voice vote.

Next, Mr. Howard reported another new bond issue: University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series N (Second Series) dated May 1, 2001 (\$18,836,838). The proceeds will be used to refund Series N bonds dated June 1, 1992.

Representative Wayne made a motion to approve the new bond issue. The motion was seconded by Senator Jackson and passed by voice vote.

Next, Mr. Howard presented a follow-up report for previously issued bonds: University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series R, dated March 1, 2001, (\$20,510,000).

Chairman Haydon said no action is required for follow-up reports.

Lastly, Mr. Howard reported six new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Graves County; Lyon County; McLean County; Middlesboro Independent (Bell Co.); Scott County; and Webster County.

Senator Jackson made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Senator Leeper and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Chairman Haydon said there were four locally funded school bond issues submitted to the Committee for review this month: Boone County; Oldham County; Paducah Independent (McCracken Co.); and Russellville Independent (Logan County). He said all disclosure information has been filed, and no further action on these bond issues is required.

Chairman Haydon reminded members that the Committee's May meeting will be held on the University of Louisville campus.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 2:20 p.m.

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